

**A STUDY ON THE ROLE OF CAMBODIA'S TRADE POLICY
IN POVERTY REDUCTION STRATEGY**

By

VONG, DONANYA

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY IN ECONOMIC DEVELOPMENT

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Dedicated to my Parent, Grandfather and Sisters

ABSTRACT

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By

VONG Donanya

The role of Cambodia's trade policy is utmost advanced policy among government policies used to get target of accelerate country economy directly towards the effectiveness of encourage Cambodia integrate into the world market and global trading systems. Therefore, the Royal Government of Cambodia recognizes trade policy reform is a crucial role in country which is can promoting economic growth and mainly reflected in economic development policies. Especially in reducing poverty that is always a main concept of royal government vision for the future country development. In particular, to increase trade promoted by liberalization is a crucial role for assists growth by opens trade regions as well as free trade market its will lead country economy to a higher levels of growth specially in poverty reduction strategy of royal government. In order to reduce poverty, the types of solution to pursue should be based on clearly demonstrable links between several kind of role of trade policy and other related issue impact on the poor. However, the paper aims to do research and study on the role of trade policy reform based on performance of trade sector such as job creation, export promotion, free trade, etc, that can raising income of people and also have an effects on poverty reduction strategy in Cambodia.

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ABBRAVIATIONS

ADB	Asian Development Bank
ASEAN	Association of South East Asia Nation
CIA	Central Intellectual Agency
CMDGs	Cambodia Millennium Development Goals
CoM	Council of Minister
EIC	Economic Institute of Cambodia
EU	European Union
FDI	Foreign Direct Investment
GDP	Growth Domestic Product
IF	Integrated Framework
ILO	International Labour Organization
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
KHR	Khmer Riel
KOICA	Korea International Cooperation Agency
Laos PDR	People's Democratic Republic of Laos
LDC	Least Developed Country
MDG	Millennium Development Goal
MEF	Ministry of Economic and Finance
MFI	Micro Finance Institute
MoC	Ministry of Commerce

MoP	Ministry of Planning
NBC	National Bank of Cambodia
NPRS	National Poverty Reduction Strategy
NGO	Non-Government Organizations
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
UNTAC	United Nations Transitional Authority in Cambodia
USA	United State Association
USD	United State Dollar
US	United state
RGC	Royal Government of Cambodia
SMEs	Small and Medium Enterprises
UNDP	United Nations Development Programme
WB	World Bank
WTO	World Trade Organization
WFP	World Food Program

Chapter I: Introduction

1. Background

Most of less and least developing countries in the world are recently facing with the key challenge of effectiveness and efficiency of international trade as well as country trade policy reform in order to achieve economic growth and poverty reduction strategy. However, poverty stills a major concern for almost every country, especially in developing countries. Likewise, poverty in developing countries is a critical issue that requires proper adjustment of political economy, economic development, economic policy, environmental development, and social participation that can lead to make relationship between citizen and government. Cambodia is a developing country that has low income; low level of standard of living that result from decades of civil wars, internal conflicts, and genocide as well as economic instability has driving Cambodia became a least developed country like today. Among so many several kind of government policies reform, poverty reduction strategy always be the focus of the Royal Government of Cambodia vision.

According to the economic development policy theory, it is extremely hard to define who the group of poor are and determine how much poor have to be considered poor. In economic growth for measurement the gap between poor people and rich people is the dimension of income of both the rich and the poor itself. In terms of the dimension of real income, it has show the negative impact that “the rich are still getting richer and the poor are still remain poorer.” Because of this reason the Royal Government of Cambodia (RGC) has been recognizes trade liberalization use in trade policy reform that plays a crucial role in promoting growth and also

use for reducing poverty. In particular, trade policy reform can promote liberalization in country and can enhancing economic growth by opens trade regions as well as a free trade market; of course it will lead Cambodia into higher level of growth rate especially in poverty reduction strategy.

By seeing such of this issue Royal Government of Cambodia (RGC) plays an important role in providing service and improve capacity building which is specific in trade policy reform. This requirement also focusing on participation of the poor, the power and capacity of government and also development partners such as Non Government Organizations (NGOs), private sector, Small and Medium Enterprise (SMEs), join cooperate in market economy while government opens market into free market under trade policy reform as supplier of goods and services for the poor. Furthermore, the royal government is trying to explore way of how to use private sector which is means to improve goods and services delivery by the role of trade policy reform directly goes to the poor and all the people in society. Hence, by trying to figure out the main issue of trade policy reform, essentially the main major of this paper will be focus on the role of trade policy reform relatively based on export, import, and job creation in order to enhance the relevant issue of effectiveness and efficiency in poverty reduction strategy.

The purpose of my thesis is to study on the role of Cambodia's trade policy reform have impact on reducing poverty by figure out the linkages between trade policy reform, growth and poverty gradually begin to receive increased attention. However, by doing research on the role of trade policy has still a debate that have to discuss more about advantage and disadvantage of export and import performance in short and long run of Cambodia's economy and also some of duty of industrial policy has also mention in this paper because it can help to improve labor force according to trade policy reform for trying to make opportunity to create more job to people in

order to increase income level of the poor people in Cambodia further in the aims of doing poverty alleviation.

Furthermore, the RGC has strong commitment in both enhance economic growth and reduce poverty as a country prospective. Improve the living standard of Cambodian people and the quality of life of the poor in country, it is can also will lead all Cambodian people can enjoys the benefits gain from economic growth as well as participate directly in economic development process with royal government. However, the policies are needed to be used for reducing poverty is broadly known indeed within and beyond the royal government of Cambodia. So, the first key that needs to success is the effectiveness of how to implement poverty reduction strategy with monitoring and evaluating by trade policy reform in order to achieve poverty alleviation in the next decade. In serious of emphasis poverty reduction strategy is must be staying on the setting and action of monitoring and evaluation on way to reach targets that are sometimes simple, relevant and easy to reflect as when required.

By doing on this report, my research aims also to discerning the reasons underlying this situation and most especially identifying possible solution on poverty reduction strategy regarding to trade policy reform by promoted trade liberalization and industrialization for to be success in ASEAN intergrades market soon establish in the late of 2015, so that Cambodia will be able to experienced on trade sector in order to enhance economic growth while simultaneously reducing poverty in the country. So far, the vision of this research paper is to set forth for making Cambodia to become a better place for fighting poverty by focusing on the role of trade policy as well as economic growth.

2. Problem Identification

The Kingdom of Cambodia trying to figure out the most important challenge in country for enhancing economic development go faster and can help raising standard of living of people, the first and main issue that find out is to reducing poverty out of the country. Certainly, royal government was established national development strategy that is focus on economic growth and reducing poverty. But it is also needs to takes into account of the relationship between growth and trade consequently so important from poverty reduction strategy perspective. However, it is not only the strength of growth that effects to reducing poverty but will focus on the character of the economic growth and economic development policy making process such as trade policy reform and so on, since others government reform can be effects to poverty reduction as well.

Most of rural people in Cambodia elsewhere are subject to famine, disease, malnutrition, food insecurity and other relevant issue. In particular, most parts of poverty issue is the problem lies on their performance of agriculture sector, and also some of the poor they employed in informal sector for both in urban and rural areas. In addition, the main purpose of this thesis is to understand and analyze implication which pertain to relationship between trade policy reform, growth and poverty reduction by analyze real performance throughout agriculture sector, industrial sector, SMEs sector, job creations and other several relevant issue in needed.

During the process of recover Cambodia's economic growth in 2009 the fundamentally supported by Ministry of Planning (MoP) has been recognized that "The poor and vulnerable groups may not have ability to benefit from growth".¹ To such an extent, among disadvantaged people, the universal complaint that "The rich are getting richer and the poor are getting poorer" and of course, certainly sure that it is might not be true a hundred percent. In this point of view

¹ Ministry of Planning, 2009

means that actually we cannot determine and difficult to find out the fact that the rich have been getting richer as much as faster rate than the poor. Hence, this is should be a result from larger income between the rich and the poor in the whole country.

By seeing such of this issue, it is not easy for increasing income gap of poor people. Specially, the issue for raising income, while consumption and production has been rises generally ranging from gradually such as family to institutions, family to government agencies, institutions to government as well as to public as a whole. But, still have so many debate and argument for this issue that have to find solution to solve as soon as possible. There could be has some question that should rising in this research was: ***Is there the role of trade policy can reducing the poverty? Is there is a connection?*** Of course, to answer this question it should be the result come from relation between trade policy reform, growth and poverty reduction strategy.

Furthermore, in this research paper will also explores about the reasons of why the poor people in Cambodia find it in extremely hard for them only to find one dollar (USD \$1) per day for survive while the rich people spending a hundred or thousands of dollars in their way just for a day. This is just because of direct impact of poverty on the poor which makes them unable to reach standard level of living, imbalance, have nothing to eat, shelter, clothes, nutrition, disease, lack of education and other basic needs as well as social welfare. That makes them staying away from happiness of public environment unlike the rich people does. On the other words, beside of those reasons it is should be the indirect impact of slower economic growth, Income level, disease, and the increasing crime rate which is extremely causes instability and insecurity in the whole society.

So far, as a result of this research paper is found out that Royal Government of Cambodia (RGC) strongly pay attention on government policy reforms in order to solve all the above mentioned

issue. In particular, among of government policy reform, Royal Government of Cambodia (RGC) recognized that trade policy reform is can surely working well to enhance growth as well as reducing poverty out of the country by helping to push raising income level and standard level of living of people in recent year.

To enhance economic growth and poverty reduction through performance of trade policy reform has been still the hot debate for all Cambodia's policy makers. They recognize that pro-poor trade policy of royal government in past years just a small criterion of export by assists only to expanding job opportunities and raising income as well as labor force of the poor. However, policy makers in royal government are aware that only exports alone cannot work well if all local firms are not face competitive domestic products and competitive environment from oversea import products in country. By seeing such of this issue royal government working hard for pushing SMEs on research and development and also competitive strategy for sharing between local firm and local firm controlling by government. It is also good for marketing research in domestic trade especially to enhance more job opportunities to rural poor come into labor market and directly increase income flow to the poor as well.

By having figure out the main issue that Cambodia recently facing on economic growth and poverty reduction which is use as economic development strategy, this paper is aims primarily finding a mechanism that would might serve as policy recommendation for Cambodia's trade policy reform regarding to contribute and solve some related issues as well as improving country efficiently. To study on this topic my research question is want to figure out the performance of the role of trade policy that can help reducing poverty only. The research question designed to answer the major problem is:

“What kinds of trade policy reform could be made to possibly reducing poverty at a much faster rate and can improve opportunities; so that the poor can also enjoys and get benefits as a result of poverty reduction strategy while country’s economy growth?”

Moreover, this research paper will seeks to accomplish the following objectives:

- Study on the most main impact of Cambodia’s trade policy for reducing poverty that trade policy use to become a good strategy in order to find key challenges and options for further reform toward sound and success of Royal Government of Cambodia’s role for alleviate poverty based on trade policy reform.
- To seek out the linkage between trade policy reform, economic growth and poverty reduction.
- To identify the issue of growth and poverty reduction strategy by analysis performance of trade sector focused on current economic growth through rapid trade liberalization integrate into global economy, world market by government and some of donor on the purpose of poverty alleviation.
- To explore and consider the linkage between trade policy, economic growth and poverty reduction strategy by performance of trade policy through create job to the poor people, increasing income and standard of living of the poor, and improve SMEs in order to enhancing export promotion and import restriction throughout the free market in a way that may reduce poverty.
- To explore trade policy reform by promoted liberalization.
- To explore tariff and non-tariff policy affects on export and import when trade policy reform occur.

- To analysis correlation between consumption and production to the price of income of the poor consume and produce.
- To figure out advantage and disadvantage of export and import in short and long-run.
- Making recommendation for Royal Government of Cambodia in trade policy reform as a major concept for economic development and poverty reduction strategy.

3. Research Scope and Method

This study will be base on theories, academic articles, reports, journals, and other resources that are related to trade policy reform, growth and poverty reduction strategy as illustrated in literature review and background of the study. However, it is also should be a consulted government document reports including official and non-official, the other research studies conducted by national government, non government organizations and other official entities in order to obtain broad understanding of history and current situation in Cambodia.

Therefore, this paper will examine both successful and unsuccessful issues, dealing with economic development and growth in Cambodia while comparing and assessing trade policy reform across the regions. By doing so on this research has found out a high performance of good result from private sector and SMEs that is easily to go directly to the poor and working closely to them both urban and rural

Study on this paper and doing research just by collected relevant information and theories in the scope of trade policy reform that can reducing poverty in Cambodia only. Due to the time constraint, the limited effort and capability as well as available resources and some statistical data come from other sources in Cambodia. However, the concern of trade policy reform that

providing the impact on economic development as well as poverty reduction strategy has not possible quantitatively done yet in reality of Cambodia's current economy.

More important, this research paper will be conducting and analyze on available data between late of 2002 to 2013 only. The paper is also analyzing some of correlation issues that relevant in trade reform. Also, the research assumed that there is a strong correlation between consumption and production that has an impact in poverty reduction strategy. So far, for the further research is strongly encouraged on seeking statistically and quantitatively to test the performance of export and import as well as its impact on economic development, growth and poverty reduction strategy in Cambodia.

4. Literature Review

The Kingdom of Cambodia has been set up record of economic growth as a remarkable track for country report over the past 10 year period. The record has show that Cambodia economy grew at close to 10% per annual during period of 2003 to 2013 through trade sector. During this strong period GDP per capita income rose from USD \$760 in 2008 to USD \$984 in 2012 while GDP growth in USD million \$8.284. In particular, according to report of MEF in 2013 GDP per capita in Cambodia was about USD \$1,036 that can help reduce poverty rate to 21% at the same year and continue increase over this period proximately about USD \$1,139.²

² Ministry of Economic and Finance, Annual Report, 2013

Table 1: Cambodia's GDP per Capita Income

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP Percapita	487	558	656	760	753	830	904	984	1,036

Source: Ministry of Economic and Finance, 2013

So poverty rate can therefore declined from 34% in 2004 to 31% in 2007 and continue decrease to 21% in 2013.³ The further potential of growth and percentage of poverty has been reduced year by year but still have people living below poverty line.

Table 2: Cambodia's Poverty Rate

Year	Poverty Rate
2004	34%
2007	31%
2013	21%

Source: World Bank, Annual Session Report, 2013

In developing country as Cambodia, poverty was measured based on poverty line in term of identified on personal income fluctuate. That is simply means that in some years poverty line has show income of the poor can fall below poverty line, Its less than 3000 Riel of Cambodian currency proximately less than 1 dollar per day (4070 Riel = \$1, exchange rate on middle of 2015). And with this amount cannot make them meet basic needs of food consumption even for feed themselves nor their family higher price of food consumption in Cambodia's market

³ World Bank, Annual Session Report, 2013

nowadays. Therefore, even data has show percentage of poverty has been reduced but people still live in poverty because of their income still remand below poverty line. That is because even growth is the major factor for increase national income but it does not necessarily that growth alone can reduce poverty at all level.

By seeing such of this issue RGC trying hard to do reform on many significant policy as well as political stability, so that, Cambodia nowadays can enjoys its growth and poverty alleviation through trade policy reform by opens free trade market, especially for raising income to the poor. So, since government doing reform on trade policy Cambodia nowadays is an open economy while trade sector can also leads export and import combined together to takes into account for very high proportion of GDP growth rate. Especially export is affected to high proportion of formal sector and is a major concept to assist labor force in Cambodia.

Having understood such of this issue, the royal government has also made new trade policy reform toward national poverty reduction strategy which is called pro-poor trade in order to promote development and improve standard of living of the poor people as its top priority area of county economic development vision. As of this, after national election in 2013 RGC continue to do reform on many significant policies for development and put into government policy that is called Rectangular Strategy Phase III.

The Royal Government of Cambodia recognizes that in order to success in reducing poverty faster growth alone might not enough to do so in reducing poverty since the large of inequality grow slowly associated with growth models and patterns can induce to reduce possibility of growth itself. However, growth is essential implement to poverty reduction strategy but the extent and the needed speed of what and which that can do to reduce poverty is still depend on its composition. In Cambodia the poor are including many several people who are staying at the

risk of unemployment, being left behind or lack of land as farmers or sometime groups of households particular in the urban poor. As a result, because of the lack advantage of growth itself cannot help enough to reducing poverty; the Royal Government of Cambodia has been raised up new policy reform to come in this relevant issue.

Therefore, Cambodia using poverty reduction strategy as a path of growth through promoted trade sector that can increase standard of living and it can be therefore as types of income for the poor that should be rising after trade policy reform existed and this is would be of how to create more jobs to people. Also, Government of Cambodia wanted to promote export in order to make more jobs to farmer since 80% of Cambodian is farmer and for enhancing growth to be faster. This is the reason why the royal government designed to choose trade policy to be reformed and use advantage for adopted in poverty reduction strategy. That is just because the main issue of poor is the impact on their real income relatively with the price that they consume and also income should be increase well through trade liberalization policy.

Yet, Royal Government of Cambodia still seeking integrates trade policy reform into broader economic development, growth, poverty reduction strategy and inequality. Especially, for trade policy reforms that can make trade help reduce poverty out of country among government policies reform in the last century. At this point of view, the question that response to this issue should be ask that “Is Trade Policy Reform Needed?.” Trade policy reform is a major incentive for driving broad range of public reform in economic development sector because of trade reform is not merely about trade capacity alone but also for overall capacity development across sectors. In this way trade policy reform as a means to enhance poverty reduction.

However, to be success in conduct trade policy reform as a part of national strategy for reducing poverty, government has focus more on policies that complement success include integrate

approach that use as tools such as export, import, tariff, labor market and some of trade related institution. Cambodia is a developing country that economy depending on growth, to such an extent in order to reducing poverty the performance of income growth of the poor is a strong relation that affects growth in country. But, growth alone cannot help much to increase income and raising standard of living for the poor. Recently, by seeing this royal government has realized that if opens free trade market of cross-country can possibly increasing growth rate of income and output. As a result, trade policy can consequently expect to assist overall the poor that can provide the positive association of both growth and free market. In addition, opens free trade market and investment region has been integrated Cambodia into global trading systems. And also global market give much more advantage to local productivity by modern technology for promoting export and also can help to increase income to the poor through labor market. In order to response to this RGC trying hard for well prepared to join ASEAN intergrades in the late of 2015. This is should be the answer of how trade policy is important for Cambodia's economy, especially in alleviate poverty.

Chapter II: Cambodia's Economic and Social Status Quo

The Kingdom of Cambodia is a country that located in Southeast Asia, or more precisely in Southwestern parts of Indochina peninsula (Cambodia, Laos and Vietnam). Following Japanese occupation in World War II, and under 90 years of France colonialism; Cambodia became independent from France on November 9th, 1953. The nation that has come across a lot of civil wars, internal conflicts, genocides, Vietnam war, and other political instabilities during the 1990s, which apparently are the hinder to development of the country.

1. General Background of Cambodia

The Kingdom of Cambodia also known as Kampuchea is the country located in Southeast Asia. The golden land of the Kingdom of Cambodia has made the country called itself as a Kingdom of Wonder. The land cover an area of 181.035 square kilometres, and it is bounded on the east and the southeast by the Socialist Republic of Vietnam and on the northeast by the People's Democratic Republic of Laos (Laos PDR) and on the west and northwest by the Kingdom of Thailand. Cambodia has 25 provinces and municipalities; the capital city is Phnom Penh the heart of Cambodia. Phnom Penh city is the centre of business commerce, culture and tourism and it is also the largest dense city. Cambodia's geography is dominated by the Mekong River like other neighbour countries, Vietnam, Thailand, Laos and flow from China and Myanmar (Burma). Mekong River is a major river in south eastern Asia and is the most important river in Cambodia. The Mekong River is located in Phnom Penh city that is connected to the Tonle Sap Lake (Great

Lake) and Tonle Bassac Lake, which Tonle Sap Lake, is enlarges to four times and its normal size when the Mekong River rises during the monsoon season made causing Makong River to flow northward into the Lake. Moreover, Mekong River and Tonle Sap Lake is the place where a hundreds of thousands of Cambodians live along the river, and their main job is focusing on the fishery. In particular, Mekong River as well as Tonle Sap Lake is also a source of natural resources view and fishery.

There are two seasons in Cambodia with topical monsoon climate, which are the dry season and rainy season. The dry season starting from November to April has bringing dry wind blows from Siberia, and the rainy season starting from May to October which the wind blows from the sea bringing much rain. Nevertheless, in rainy season the great Tonle Sap Lake and Mekong River, the level of water may rises up, flooding in vast amount of areas and sometimes flow in different part of the country.

In the past, Cambodia had suffered extremely pain and had experienced the most severe catastrophe. At first glance of Cambodia timelines, this nation has come across a lot of civil wars ranging from Lon Nol Coup or the Overthrow of Sihnaouk King in 1970, Pol Pot genocide regime in 1975, the Vietnam war, and other political instabilities during the 1990s, which apparently are the hinder to development of all every sector in the country. These result is leaded the country in destruction, death, pain, and especially slower growth of economy. Among several regimes as mentioned above, a major event in Cambodia was to be free from the Pol Pot genocide regime on the January 7th, 1979. The Pol Port genocide regime was called themselves as a Khmer Rouge regimes or the Red Khmer was controlled the whole of Cambodia, and then known as “Democratic Kampuchea”. After their short reign, 3years 8months and 20days of Pol Pot genocide, the Khmer Rouge regime was dismantled; the new regime started since the early of

1979 with made Cambodia's economy was totally a "new baby" because of all everything has to be started from zero. The millions of Cambodian people resumed their lives as farmers, mostly at a very substantial level. Growth has been achieved in slow progress while many other fields needed to be constructed ranging from new government establishment, new administrative rebuilt, new institution, new government policy reform, infrastructure, and the reform of formal education...etc, at that time. Especially, everything was gradually improved with the help from massive influx of foreign assistant in all level. Therefore, after the first national election in 1993, Cambodia's economy has seen a better progress where it works toward more openness economy by adopting market economy that is called "free market."

2. Macroeconomic Performance

The General Population Census in country has show that Cambodia's population in 2013 was 15,205,539 million with annual growth rate 7.20%,⁴ while Cambodia's economy is primary agriculture based. In particularly the lacks of education and limited skilled capacities of the people was a reason for increase poverty rate in countryside. The most of people living in countryside are also suffering from the lack of basic infrastructure in the country. It is the main reason lead the poor cannot enjoys the opportunities go to school and vocational training enough, and specially activity to joint other social communication opportunities. Sometimes it is also make the poor difficult go directly to consume and sell their own products such as agriculture product and so many other product to the local market or downtown, that is sometimes induce them needs assistance of middle man to sell their products in the market. Thus, when middle man existed in the market the positive and negative impact will occur and goes to both the supplier

⁴ Ministry of Planning, Cambodian People Census Report, 2013

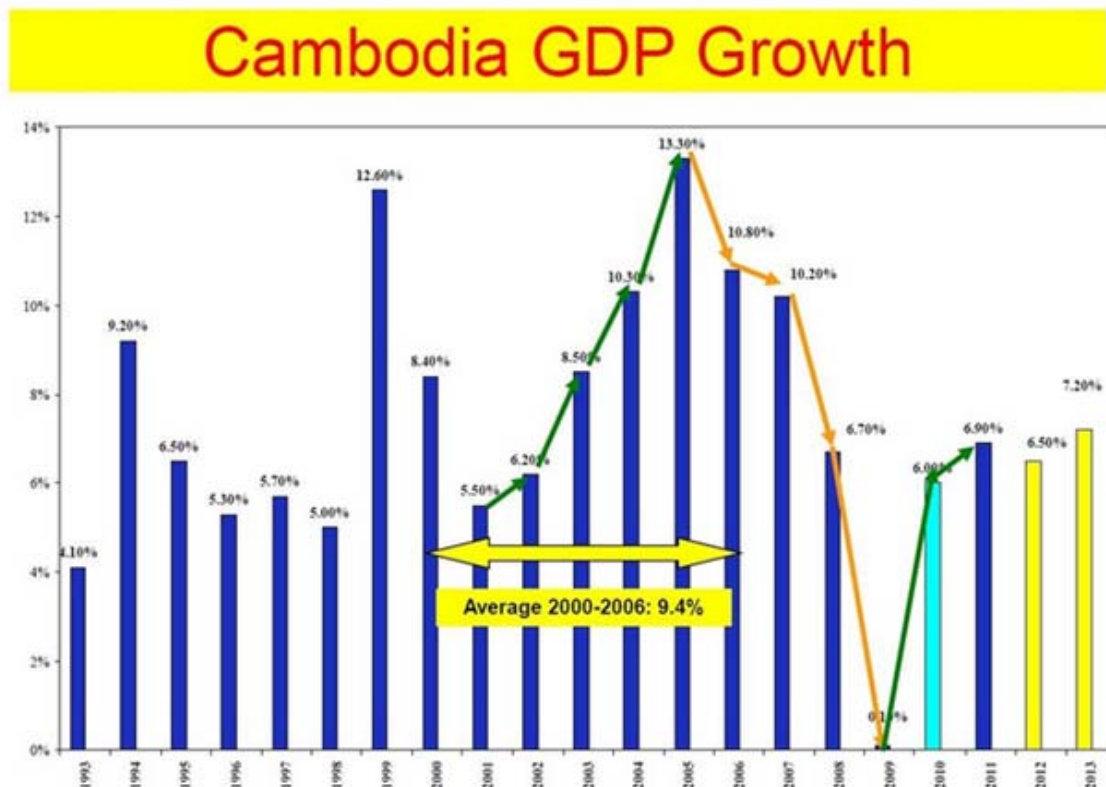
and demander, but for the benefit gain of this trade mostly goes to the middle man or interest groups than to the poor. Recently, the Kingdom of Cambodia has had its share of economic and political rise and fall. Since 2002 to 2013 is the period of most recent rise that gained dominance over domestic political scene and Growth Domestic Product (GDP) grew at the highest average annual rate in Asia. But during that period do not means that both economic and political gain smoothly because if look at the following graph some years GDP was fall down and then continue rise up again.

Laboriously, from the year of 2008 to 2013 Cambodia's economy grew about 10% driven growth mainly through expansion in the main major of country's economy as agriculture sector, garment sector, tourism sector, and construction sector. As a result in 2009 of global economic slowdown, GDP contracted slightly at 0.1%. But in 2010 was climbed more than 5% through driven by renewed exports. However, the major exports is textile and clothing that based on agriculture products as a primary but because the lack of capital, limited resources and low level of skill of farmers include other relevant issue make slowly agriculture products. Hence, beside of textile and clothing Cambodia also exports other commodities that some of them also from agriculture sector are timber, rice, rubber, fish, tobacco and footwear but the amount of those commodities are smaller than textile and clothing for the exports.⁵ Thus, the graph below has show the new improvement of GDP growth rate for the last 3 years as in 2011 GDP growth has 6.90%, in 2012 GDP growth has 6.50% and in 2013 GDP growth has 7.20%.⁶

⁵ Ministry of Commerce, Annual Session Report, 2011

⁶ Ministry of Commerce, Annual Session Report, 2013

Figure 1: Cambodia's GDP Growth Rate

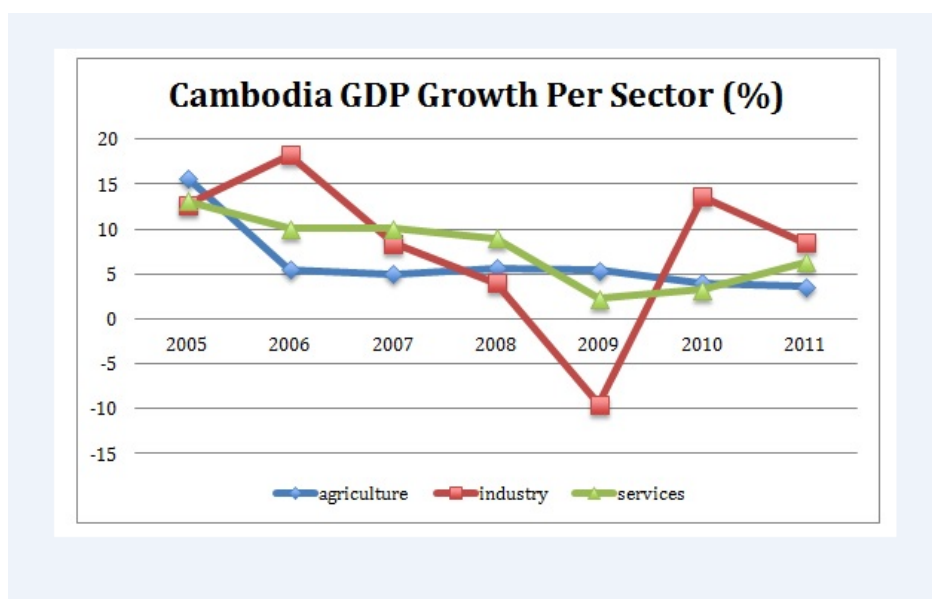


Source: Ministry of Commerce, National Development Strategy of Cambodia, 2013

However, the main major exports as textiles and clothing in January 2005 was expired from WTO Agreement, so that time has led textile and clothing producer in Cambodia were forced directly with lower-priced countries such as Vietnam, China, India and Bangladesh. As of this, the worker was lay off while current employees in garment industry have more than 280,000 people proximately about 5% of work force and it is also contributes more than 70% of Cambodia's exports.

Due to 2011, the exports rate of rubber was increased about 25% which is can lead to raise global demand while the tourism sector has continued to grow gradually with exceeding 2 millions of tourist per year come to visited Cambodia in 2009 to 2010.⁷ However, Cambodia's economic growth was dampened in 2007, when the global financial crisis occur and affected on weakening of demand for Cambodian export sector and then construction sector also declining due to a shortage of credit. Therefore, economic development strategy of royal government in a long run would remains a daunting challenge left behind. At that time, in order to address well in many pressures RGC needed and required to working with bilateral and multilateral donors include World Bank (WB) and International Monetary Fund (IMF) for smooth successful.

Figure 2: Cambodia's GDP Growth per Sector (%)



Source: Ministry of Commerce, Cambodia's Economy Report, 2011

⁷ Ministry of Commerce, Cambodia's Economy Report, 2011

On the other hand, the major economic for Cambodia to be challenge over the next decade will be patterns or models of economic development strategy which all relevant sectors can create enough jobs to handle rapid population growth. So that Cambodian people can enjoys job opportunities through several sectors such as Small and Medium Enterprise (SMEs), private sector,... etc. Furthermore, since 2005 under Cambodia's territorial waters were found exploitable natural gas and oil deposits. This is can be therefore representing to a new discovery from natural resources that will expected given benefit to the Kingdom of Cambodia for suppose to become new revenues for national income if commerce begins.⁸

By look into broadly world, Cambodia is said to be one of the major importing countries throughout report made by Central Intellectual Agency (CIA) in 2012 has show import figure outweighs exporting figure by \$8.213 billion and \$6.018 billion in 2011.⁹ Currently, commodities such as gold, petroleum, oil, cigarettes, equipment, motor, vehicles, machinery, pharmaceutical products, etc that Cambodia imports from China, Hong Kong, South Korea, Thailand, Singapore and Vietnam.

Table 3: Cambodia's Import and Export, (USD \$ billions)

Year	Export	Import
2011	6,018	8,213
2012	6,148	8,840

Source: Central Intellectual Agency (CIA), Export and Import Report, 2012

⁸ WTO, Agreement Session Report, 2005

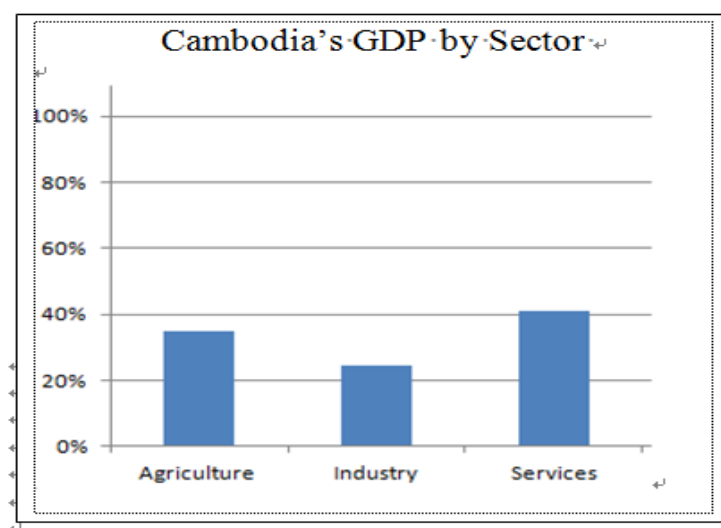
⁹ Central Intellectual Agency (CIA), Export and Import Report, 2012

3. Major Sector for Poverty Reduction Strategy in Cambodia

3.1 Agriculture Sector

Almost 85% of Cambodian people are famine and 90% are the poor. Why there is happen while Cambodia main sector is Agriculture? According to data in recent year has show GDP in 2013 is \$39.64 million while GDP by sector has Agriculture 34.7% while Industry 24.3% and services 41%.¹⁰ So why this still remain poor?

Figure 3: Cambodia's GDP by Sector



Source: Ministry of Economic and Finance, Annual Report, 2013

As of above data that show Agriculture has 34.7% should make the famine can earn much from what they do, but in contrast they still remain poor. This is because of the income from Agriculture is still in low amount of price of product and consumption that existed in market. Moreover if look at the figure that Industry has 24.3% it seems to be no effect much with current economy but if compare to the income that can earn form Industrial sector, 100% sure that it can highly push economic growth goes up as well as increase income of the poor faster than

¹⁰ Ministry of Economic and Finance, Annual Report, 2013

agriculture sector since the product from industry sector has much higher price than the price of agriculture product.

According to this reason royal government tries hard to promote Agriculture product by making this to become raw material use in Industry as well as reducing import of raw material and can help both sector coexist in order to get higher income. In recent year royal government has created Agri-Industrial product in the aims of pushing income of the poor and help to enhancing growth as well as created more jobs to all Cambodian people.

3.2 Manufacturing

In recently, the most rapidly accelerate domestic products and created more jobs to the poor is mostly comes from good performance of manufacturing. Cambodian business men are mostly run business to produce production such as food, beverage, snack, toy, stationery... etc, and some of manufacturing can be a local supplier and exporter. Eventually, when manufacturing goes well in market the opportunities that the poor can get job is increasing smoothly but in contrast sometimes labor force are lacking in the country while some of the poor doing migrate to neighbor countries or other ASEAN country regions to find jobs with have high wage rate. Migration rate in last 5 years is higher if compare to labor force in country while rapid population growth. The reason that poor people decided to find job out of country, it because they thought that working in neighbor countries or foreign countries will bring much more wage to them and would enough to feed their family members well through income paid from oversea. But, sometimes doing migration is not good at all. This is because most of the poor are already lack of both education and experiences when they have to go to work outside their home country. So, the danger they should meet might be higher than the benefit that they should get. Thus,

those who do migration sometimes has higher chance to meet high risk rather than working in their home country.

In recently, some of the poor go to work in some foreign countries has died because of many problems that make government do not wants them go out of country for finding jobs while country's economy is working well and can create enough jobs to all Cambodian people. So as mentioned above, by seeing such of good results from manufacturing which can help much to solve this issue and also can accelerate growth to country in the last few years, royal government has realized manufacturing is a main and first sector for government to take into account and to put it into reform of trade policy throughout their everyday activities by try supporting and monitoring manufacturing as much as helping to explore the way of how to protect and enhance productivity with a good quality and so on. However, in order to promote and protect manufacturing it is not simple ways that royal government alone can do it without any supporting from citizen or other international partners. When non-tariff barriers are existed in the market, the competitive opportunities would be rise between domestic products and imports products. So, when it happen trade policy reform will take place and use for solve this problems and working well on it.

Chapter III: Poverty in Cambodia

1. Poverty in Cambodia

As a theory of economic development, it is so hard to give right definition of poverty to define who the poor are and determine how much poor have to be considered poor. Since the poor can be defined in different way and in priority criteria to people who are lack of income or less of consumption opportunities, sometimes poverty is defined as a gap of living standard between the poor and the rich, both in rural area and urban area in whole country. However, to broader dimensions of the poor is also include the lack of opportunities, low education, low capabilities, health, vulnerability, malnutrition, and labor force of children and women.

In addition, the action of people move in and out of poverty seasonal and unexpected shocks which makes definition of poverty different to defined. Sometimes it is difficult to indentified income gap of the poor either the rich in Cambodia. Hence, as the nature of poverty one way to criterion the poor are can be distinguish by adjusted family size, locality, ages of family members, and probably lower level of income, lower level of living, lack of social opportunity and so on.

1.1. What is Poverty and How to Measures Poverty?

The Measurement of poverty is used by different indicators for differences counties. As Cambodia is a low income and developing country, so poverty is measures by the income of people depend on poverty line. However, both rural and urban poor facing the most for their everyday life in recently is malnutrition, have nothing to eat, cannot meet basic needs..., etc. So

as what the poor generally meet in the whole country nowadays is mainly facing with food consumption than other issue. So the earned income of the people is assumed to be the dimension of measurement poverty depends on poverty line in Cambodia.

Therefore, poverty is measures based on income of the poor depend on poverty line which is simply means that when income of them staying below poverty line they assume to be poor. In this point of view, in some years on poverty line has show income of the people can fall below poverty line, proximately less than 1 dollar per day. As the poor in Cambodia can earn income about 3,000 Riel per day, Cambodian currency, that equals to USD \$0.74, so it is said that they are in poverty (4,070 Riel = \$1, exchange rate in middle of 2015). Thus, the dimension of poverty in Cambodia is measures based on poverty line in term of identified on individual income fluctuate.

1.2. The Causes of Poverty

The fundamental of development challenge facing for RGC in recently, is to reducing poverty and enhance economic growth, and the way to improve the quality of standard of living of Cambodian people to all levels with recent rapid population growth. Therefore, RGC was considered poverty is a main issue for slowing economic growth and sometimes have a high negative impact for reaction with national development strategy. In particularly, reducing poverty out of country has become a major concept for Royal Government of Cambodia's overriding development object.

As so, the reason that drive people in poverty occur in all both small and big group, and it is difficult to identify since it always in different circumstances even though in between individual and household. As above mentioned, the reasons why Cambodia poor or said to be in poverty has

to be defined and determined from several reasons that most of them come from history of political regimes and instability of country economy. However, the royal government has been working hard on this issue but as Cambodia just free from other negative conflict as what has mentioned before, so for the government and policy makers it is so hard to designs a new policy reforms to solve and conducting in poverty reduction strategy at the period of time. In addition for the following table is the comparison of dimensions of poverty with government policy since 2006 that show how government takes high attention in this issue until now:

Table 4: Linking Dimensions of Poverty in Cambodia to Royal Government Policy:¹¹

Dimensions of Poverty	Government Policy
<p><i>Lack of Opportunities</i></p> <ul style="list-style-type: none"> -Low average income -Low level or inadequate farming technology -Extensive poverty, especially in rural areas -Landlessness and lack of access to land -Low education for girl -Poor access to assets and skill training -Lack of infrastructure -Problem of landlessness 	<p><i>Promoting Opportunities</i></p> <ul style="list-style-type: none"> -Macroeconomic stability -Economic growth -Promoting private sector development -Improving physical infrastructure including irrigation and rural roads -Measures to promote agriculture -Land reform
<p><i>Vulnerability</i></p> <ul style="list-style-type: none"> -Poor access to credit and capital -Crop failure -Weather conditions -Environmental degradation -Increased violence against women-rape, domestic violence, trafficking of women and children -Health problems and vulnerability of women to HIV/AIDS infection -Land mines 	<p><i>Creating Security</i></p> <ul style="list-style-type: none"> -Micro-finance schemes -Safety net programs -Environmental protection -Access to health services -Mine clearance -Improve irrigation and drainage facilities -Crop mixes manipulation for increased biological stability and economic viability

¹¹ IMF Country Report No. 06/266, July 2006

<p><i>Low Capabilities</i></p> <ul style="list-style-type: none"> -Low outcomes, especially education -High costs of healthcare 	<p><i>Strengthening Capabilities</i></p> <ul style="list-style-type: none"> -Service delivery -Increase public spending on health, education, agriculture and rural development
<p><i>Social Exclusion</i></p> <ul style="list-style-type: none"> -Lack of access to decision making -Corruption -Low representation of woman in key decision-making positions -Heavy burden placed on women for household work, child rearing and child care as well as care of the sick and the elderly 	<p><i>Generating Empowerment</i></p> <ul style="list-style-type: none"> -Judicial reform -Education policy -Fostering enabling environment for NGOs -Governance and anti-corruption -Decentralization

Source: IMF Country Report No. 06/266, July 2006

As of what existed in table has shown the dimension of poverty and the reasons of why people are poor and making them into poverty come from different sectors with the solution of what policies that government should used to take into account.

2. The Solution for Poverty

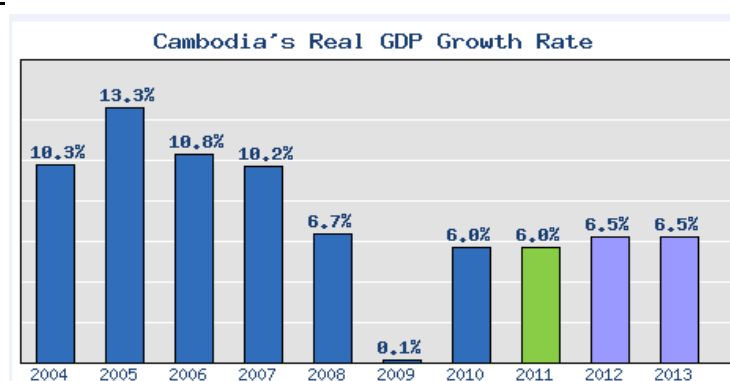
Later on RGC has realize that trade sector is simply means to the central of reducing poverty by help to push growth since growth can generally provide income opportunity to people in all level. When the Royal Government of Cambodia started to develop economy and policy innovation, it is not the easy work to do so while nation start from nothing as Cambodia did. But at that time

trade made a chance to help improve Cambodia economy go faster with rapid growth and also can provide more income to people which can make their living comfortable more than before.

But growth at that time is said to be accounted for increase inequality in Cambodia. Because of the benefits from economic growth in Cambodia has been unevenly distributed well to the poor that is the cause of made it slow in reduce poverty rate with an overall steady progress in Cambodia. The nation is still having broadly living standard gap between rural and urban, also gap between the rich and the poor, by uneven of growth mostly distribute to the rich rather than the poor. This suggest that inequality can make ‘the rich is getting richer, and the poor is getting poorer’ vastly exist and continues to extent further gap if nothing is done to improve this situation.

However, in the next decade Royal Government of Cambodia aims to obtain the target growth rate at 7% by doing hard on economic policy reforms that crucial to design and set up conditions for increasing domestic products that can assist both private sector and SMEs domestically investment with oversea partners. According to ADB report working under MEF has estimated the growth rate of Cambodia in 2012 is at 6.5%.¹²

Figure 4: ADB’s Cambodia’s Real GDP Growth Rate



Source: Ministry of Economic and Finance, Annual Estimate Report, 2012

¹² Ministry of Economic and Finance, Annual Report, 2012

Therefore, the requirement will be the way of how to maintenance market stability under trade policy reform with the strong power of government working to accelerate growth and rising standard of living of the poor.

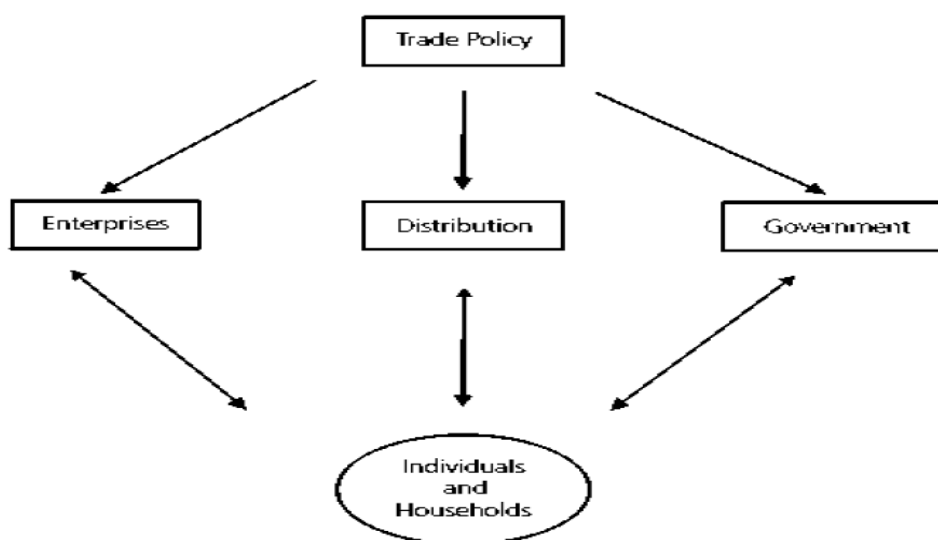
In fact, to accelerate growth is seems to be the most powerful weapon for fighting poverty but it hard to do so since income distribution are not working well. So the benefit of the poor gain from growth may suffer if the distribution of income worsens. As above mentioned, what should do to make it work is to maintain market price with increasing income level rising from different sector that has existed in trade policy reform. So trade policy reform can therefore shift resources from one sector to another sector more efficiency and also can integrate country into global economy. Furthermore, the royal government has established pro-poor trade policy toward promote and accelerate economic growth with the fairly of income distribution to help reduce poverty in a long run.

In particular, the royal government recognize that the large of inequality can reduce possibility that growth alone enough to solve poverty issue in Cambodia, so it means that faster growth alone would not be strong enough to reducing poverty in Cambodia if trade policy reform not existed. Because the poor in Cambodia include many kinds of people with different composition cannot gain much benefit even when growth increase since it depend on differ composition of groups of farmer and landless, groups of urban poor and unemployment, groups of disabled and so on. In Cambodia the major growth of real GDP is come from the result of agriculture products. This is because of natural condition that country has such as fertilize land which good enough for grow crops and feed animals, also maybe from ancestor legacy that make 85% of Cambodian people are working on agriculture sector right after the country released from other civil wars, French colonialism, and also internal and external conflicts.

2.1. Individual and Households

However, economic growth has impact in trade policy on individual income and household income with relatively value of wage rate gain from trade policy reform through their working hours. The following figure is show about trade policy has effectively to individual and household by:

Figure 5: The analytical scheme



Source: Ministry of Planning, 2006

By looking at this analytical scheme made by Ministry of Planning in 2006 has determined individual and household welfare depending on the real income and the prices of all services and goods that both individual and household consume and produce. This analytical scheme is used to measures income of individual and household which can provide criteria such as below:¹³:

¹³ Ministry of Planning, Individual and Households, 2006

- (1) The flow of real income of individual and household that come from trade sector means that they produce their labor to employ in trade sector and get nominal wage rate from the place where they employed for as in government or enterprise as has existed in the scheme. Moreover, the value of individual and households would complement by time frame that is means that for the distribution of trade policy is the maximum amount of time that they could spend for working per day proximately 8 hours with the valued at prevailing wage rate. If without distribution of trade policy reform the working hours maybe longer than 8 hours a day since employer or investor prefer quantity of product rather than labor welfare. But now working hour normally 8 per day follow the Cambodian labor law.
- (2) The flow of income has been transfers to other non-earned income across sectors such as remittances from family members outside the households, services and goods, official transfers and also has the benefits that come from common resources too.
- (3) The profit gain from individual and household's productivity.

In particular, the effect of single small price changes on individual and household welfare depends upon whether household is a net supplier or is a net demander of services or goods that they consume and produce. To be more precise, the effect of very small price changes on individual and household welfare is proportion to net supply position expressed at current prices as a proportionate of total expenditure.

So since that year until now people's everyday life is seems to be still remaining follow this analytical scheme.

2.2. Rural Poverty, Rural Development and Rural Poverty Reduction Strategy

Rural area is the place that most satisfied which a great gain from poverty reduction strategy in Cambodia and quickly show the performance of government policies are working well with people, because the highly possible result will get from rural areas the place where most of the poor are living. Mostly their works are based on agricultural sector and fisher, so most of Cambodian 85% are farmer and they are said in the poverty because the personal income of them less than 1 dollar per day. However, regarding to the rural development policy that has been recommend by the royal government in order to alleviating poverty, rural community development play a crucial role at establishing a self-help community in which people certainly identify their own needs and problems and can manage them by themselves. Instead of allowing outside agency to present the community with ready-made solutions, the community is encouraged to manage community affairs by itself. The significance of the rural community development program is to open new opportunities to rural people to become more actively involved in the development process.

Even if rural community development program conducted by government has been set up and working well in around communities but doesn't means that, this can help much to the poor since it is difficult to catch up with benefit gain from rural development and also the government do not have enough budget to do so to all rural area. So that the assistant help from international partner are required since the lack of human resource capital and nutrition for the poor are still limited. Therefore, nowadays have so many international partner such as NGO, ADB, WFP, WB, KOICA, JICA, others dependent and independent organization and so forth are handing to help directly to the poor in community through providing food, human capacity building, society communication activities, financial assistant, provide credit to the community people who lack of

capital from other Micro Finance Institute (MFI), the opportunity of receiving healthcare; and so on. Thus, all the programs provided by those sectors are greatest importantly to continue aimed direct support and protection those in rural community areas from avoid the lack of opportunity that is also one of the reasons that make people still live in poverty.

Beside of this, royal government has created new trade policy reform that got much successful in recent year by doing trade incentive as trying to push and attract investor go to set up office building or factory in provinces also as in the rural areas. So that when the building or factory are well setting up at that time the job opportunities will accrue. If have more jobs the income of rural people will increasing more and also agricultural product will have high demand which is help to reduce migrate from rural area flow to urban or to Oversea. On the other hand, where there is smoke there is money; where there is money all factor are develop such as infrastructure, water supply, electricity supply, more school more education, hospital..., etc, happen more in those areas.

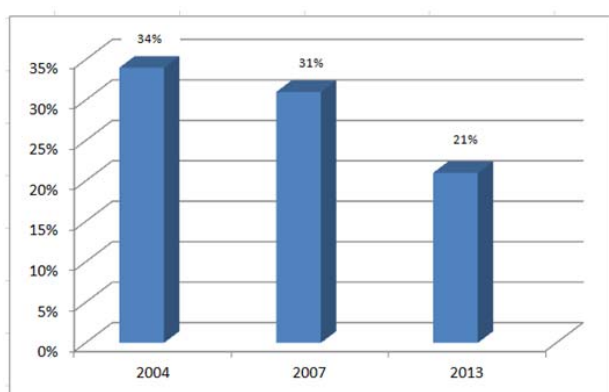
2.3. Urban Poverty, Urban Development and Urban Poverty Reduction Strategy

Since 1991, Cambodia has moved laboriously towards development. At that time the country's economy has integrated itself into an international forum for market economy in order to build stability of market. But still, the rapid growth has mainly concentrated only in Phnom Penh City, the capital city of the Kingdom of Cambodia. A few year after, in 1994, the Introduction of Cambodian Investment Law offered incentive to attracted foreign investors come to visited Cambodia. Hence, the capital city Phnom Penh is a heart of the Kingdom of Cambodia; it is also the center of both hope and despair of the people while economic and social development just started to be improving and applied to work close to the people. And of course, it is also a

congested center of urban poverty also. Phnom Penh City is the meeting point of rural poverty doing migration to urban and also as environmental deterioration. A part from that, Phnom Penh is the center for major growth and economic development of the country. Also, it is the concentrating place for economic, education, political regimes, job opportunity, diplomatic, which is the reason that would absorb cheap laborers and students from rural areas come to find other opportunities both in their education and careers.

According to estimated rate of urban growth and urbanization in five years from the period of 2008 to 2013 is phenomenal show the rate is around 4.12% while the nation one is 3.36%. In statistically, 21% of Cambodian people live under poverty line while 10% of who live in Phnom Penh City among 15,205,539 populations in total, reported in 2013¹⁴. This statistic is wanted to show the rate of urban poor in capital city that is simply means that the poor are existed everywhere around the country of Cambodia not just only in rural area. However, Phnom Penh City makes up around 1.5 million while the country population is 15 million in 2013 and also the rate of Cambodian people live under poverty line has been reduce to 21% in the same year.¹⁵

Figure 6: Cambodia's Poverty Rate



Source: Ministry of Planning, Annual Report, 2013

¹⁴ Ministry of Planning, Population, 2013

¹⁵ Ministry of Planning, Annual Report, 2013

By having seen such an impact of urban poor to urban economic the Royal Government of Cambodia has turned vision to use new strategy in different approaches to solve problems by doing on government policy reform which has been takes into account for the specific areas of trade development policy reform. This policy reform has been promoted by royal government through trying to improve productivity and field enhancing in order to provide supporting of new skill and benchmarking to the SMEs sectors and also private sector under the supporting of government cooperation with national partners and international partners in order to promote domestic product into good and high quality. So that those local firms can help rising more job opportunity to the urban poor by employed them into those sectors. Also can helped to accelerate growth to move into urban industrialization which can make performance of income earned in the city turns to be high compared to income earned in agriculture sector in rural. So far in Cambodia the greatest and faster increasing real GDP of country could be depend upon two big sectors of major economy are both Agriculture sector and Industry sector among another two more major economic such as Tourism sector and Real estate sector.

2.4. Rural and Agricultural Development

As most of the poor in Cambodia is a farmer and the country economy is depend on agriculture sector which is the biggest part of real GDP, So royal government wanted to enhance agriculture sector work for reducing poverty and also can contribute gradually to economic growth. According to the survey of Ministry of Planning has show 80% of the population is people who lives in rural area and over 90% depend on agriculture sector.¹⁶

¹⁶ Ministry of Planning, Annual Report, 2013

In particular, major of the poor in Cambodia are farmer-headed households while women and children are also making significant contribute in agriculture sector. Yet, the agriculture product in Cambodia still have limited of both quality and quantity because most of the farmer is still used and follows old technology such as traditional method to feed animals and grow crops, subsistence and poorly technical farming are still remain. Moreover, another majority is based on the weather sometimes decline by flood, drought and pest affectation. By given that Cambodia needs imports about 70% of fruits and vegetables that is also the reasons which make higher value of crops product.

By seeing such of this issue, royal government have provide supporting to distribute crops to the rural communities as well as sending experts from other firms both local and international for training modern technology, and benchmarking to the farmer for utmost to accelerate their productivity. Moreover, royal government work closely to the poor and quarters especially with rural communities by provides and builds new irrigation well to the lacking regions as their requested and try to distribute it to all the need regions in the country if the government has enough budgets to do so.

Chapter IV: The Role of Trade Policy

1. The Role of Trade Policy for Poverty Reduction Strategy

The Royal Government of Cambodia (RGC) has confirmed trade development policy is a key role to drive country overall Poverty Reduction Strategy and Millennium Development Goal (MDG) as formulated in the National Strategic Development Plan and Government's Rectangular Strategy with cooperation by the Council of Minister (CoM) of the "Pro-Poor Trade Development Strategy" since February 2001.¹⁷ However, trade policy alone is not enough to effects on economic growth though for poverty reduction strategy. As of this in 2008 RGC has make new strategy calling "Socio-Economic Development Strategy" adding more on existed policy to be more success to reach government development program. The reason is that when trade policy reform existed and implemented without any efforts of trade-related domestic institutions and other policies reform it has often failed to stimulate growth.

By seeing such of this issue, royal government has designed a region that encourages investor to do investment by accelerate investment opportunities and competition opportunities through opens free trade markets for aims to attract Foreign Direct Investment (FDI), so that automatically can allow a country and local company to integrate into the world market economic from year by year. And it can help much to the business and investment in country directly have good competitive prices as a supplier and can enjoys with the price action as a demander.

¹⁷ Council of Minister, Report on Pro-Poor Trade Development Strategy, 2001

At the same time royal government has designed other policies reform such as macroeconomic policy to maintained stable prices and also on real exchange rate when trade policy reform existed. Also, its can assist labor market which important to implement trade liberalization for the poor in both rural and urban.

2. Cambodia's Trade Policy

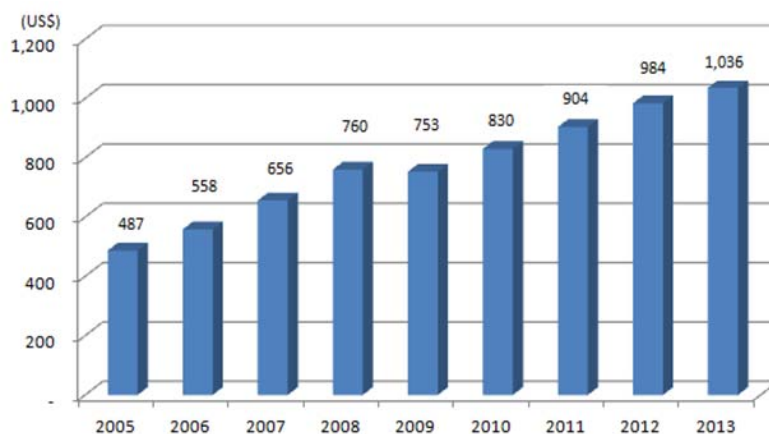
To implementing trade liberalization to be success and in the aims of used as a tool for poverty reduction strategy through pro-poor trade development strategy of government reform, the necessarily is to embracing global market and drive country to the world trading system that is requires Cambodia accession into the World Trade Organization (WTO), ASEAN Intergrades and Organization for Economic Cooperation and Development (OECD). Despite, complying with WTO, ASEAN intergrades and OECD requires such a kind of very demanding and challenging for a small country as Cambodia recently. However, trade related domestic institutions are supposed to give technical assistance to both government and citizen. It is mainly needs from legislative framework and trade policy reform as evaluation, monitoring for the report of value procedures to assessing the impact of trade protection when used policy reform.

Look back to 2001, under the Integrated Framework (IF), Cambodia was the first Least Developed Country (LDC), which found it among the best examples of benefits from technical assistance through “Pro-Poor Trade Development Strategy” in the middle of 2001 by RGC. later on in 2008 beside of “Pro-Poor Trade Development Strategy”, the new development program that calling “Socio-Economic Development Strategy” was recommend by RGC which was used in order to help promoted economic growth go at faster rate and to assist trade to go smoothly for the aims of alleviate poverty. However, the factor behind success of Cambodia is came from the

strategy vision and the dynamic leadership of the Ministry of Commerce with and overall government policy reform cooperate with other development partner or donor. The trade-related technical assistance has reflected priorities for government, institution, and development partner go towards trade sector development. Moreover, in the area of trade sector development the supporting mostly get from Overseas Development Assistance (ODA), World Trade Organization (WTO), Asian Development Bank (ADB), International Monetary Fund (IMF) and so many other partners for helping royal government as also private sector in implementing trade policy reform to be success

So, under supporting of royal government cooperate with international partners as listed above, trade policy reform will benefit to the poor and to the country economy greatly more than before. However, throughout economic situation nowadays, the expansion of exports under trade policy reform by promoted liberalization is seems to be spread often with new and unexpected industries arising. That is so difficult when it is needs to identify what is the future export and who is the future exporter. So the gain from trade liberalization such as income growth and employment growth is seemed to diffuse. But it is true that consumer will enjoys lower price of product and especially to the poor who will have greater opportunities in market when trade liberalization occur. As the result, trade can help to improve income of the poor direct and indirect way according to the following graph that has telling that even Cambodia is a slow and least developed but income level of the people has been increase from years by years.

Figure 7: Cambodia's GDP per Capita Income



Source: Ministry of Economic and Finance, 2013

3. The Problem of Trade Policy in Solving Poverty

According to research and some analysis such as above mentioned, even though the Royal Government of Cambodia has been set up a new trade policy reform in order to reducing poverty, but still have so many criteria for slowing poverty reduction strategy activity. Maybe capacity building to all level of people is required but it seems to be not working well goes to the poor. In contrast, it seems to help the rich getting richer while the poor trying extremely hard to use their labor in labor market with low level of income. However, is better than government did not do anything and let unemployment rate goes up. Still, trade policy reform is one of a good solution that royal government can do to make a better life of the poor through their activities to join into society, also they now can enjoys their living though is still in limited. To such an extent, Cambodia still needs to face and deal with so many challenges in achieving smooth and efficient benefit from trade policy reform such as the participation of Manufacturing and SMEs in productivity and field enhancing in order to improve safety, quantity and quality of domestic products to compete with foreign products and also importable product when trade policy reform

exist, and also create more job to people in both either formal and informal sector to where they lives whether in rural or urban since they can share and receive those opportunities at the same time just their performance happen in different place.

But for the point of view of political economy vision in short run of trade liberalization has an effect on income redistribution of the poor; this is also defines that policy often put tax on the poor. That is why trade policy has to do reform and then after reform trade can therefore do much to improve income of the poor. To examine the impact of trade policy reform by promoted liberalization are requires and needs to help protect the poor who might suffers with this reform in short term. But even in long term of trade policy reform is seems to be have a negative impact on some poor, but accurately it is depends upon the source of income and the impact on price from services and goods that the poor consume and produce.

That is the imagination of impact of trade liberalization on real income of the poor through production and consumption relatively with price. This is strongly recommen to the government of Cambodia what is should take into account when use trade policy reform by promoted trade liberalization is the degree to which the value of what the poor consume from their own output or product. For this issue, impact of trade policy reform on real income of the poor is smaller; and the share poor own consumption is greater, which means that if the poor consume on what they exactly produce, its can therefore the real income that effect from trade liberalization on them is cancel out or zero. In contrast, in long run if the poor are net buyer they may lose only from price increased of the product they produce. But for to be a net buyer, the poor needs to obtain additional income by go to work in other sectors, so that the real income of them not decline, so given that wages rate of the poor is will tend to be increasing the price of those sector products.

4. The Direction of the Reform

In developing country as Cambodia for doing trade policy reform by promoted liberalization might not implemented well due to political regime or instability of country economic. So, the benefit that get could expect go to growth rather than the poor. That is because the poor are not seems to gain income enough from labor market whether the markets functions reasonably well, especially when the poor trying to find job. Thus, trade liberalization should take place in job creation through export that wills a category of labor intensive.

According to the country economic the main major GDP in Cambodia is come from Agriculture sector, Trade sector, Industry sector, and Tourism sector. So the significant for the role of Cambodia's trade policy in poverty reduction strategy should be the reforms which focus more on affected areas throughout these sectors performance in order to alleviate poverty out of the country.

5. Trade Policy Reform

5.1. Tariff and Non-Tariff Barriers

In developing country exporting of intermediate products is a crucial way for driving country to participate in the world economy, but the problems discouraged innovation of intermediate industries is tariff escalation since it has a high effectiveness of protection to final goods producers. Therefore, Royal Government of Cambodia has designing policy reforms on trade for aims to enhancing growth and reducing poverty by promoted trade liberalization that use to understand advantage and disadvantage of tariff that has affected to the flow of services and goods. By seeing such of this issue, royal government has considered putting the tariff into trade liberalization. That is because of tariff generally simplifies customs operations, help to reduce

corruption, save on the lack of administrative resources and eliminates ways use to avoid paying tariff. Thus, tariff will saving resources directly for higher protection from reducing lobby and associated gain to be employed on production in the way of create better and cheaper products. However, for those industrials are still poor, so for them will would broadly reduce the scope for rent-seeking and price exercise power. Specially, it is affects to exchange rate between Cambodian Riel and USD Dollar. As of this, in the late of 2015 Cambodia will go into ASEAN market that calling ASEAN intergrades.

When Cambodia go to ASEAN intergrades market it is difficult to protect domestic products and also for prevent benefit of domestic producers from international competition when trade policy reform occur. Yet, what government concern is about the benefit that gains from ASEAN market that seems to goes to the powerful interest groups not to the poor. In despite, the activity of Non-tariff barriers has been seeing in some cases of trade liberalization, those mechanisms including quotas, monopoly rights to import and the license. Anyway, when non-tariff barriers take place, the most danger is could harm to reduce poverty and growth. The reason is that non-tariff barriers are significant to import which is simply means that in order to obtain the valuable licenses to imports is the encourage competing interests to lobby but still also lack of transparency. However, if putting import controls and sometimes export controls are usually bring benefit to powerful interest groups rather than to help the poor.

Moreover, Non-tariff barriers are especially pernicious when transfer of rents broadly including the poor to the license holders. On the other word, such of rents will arise while the restrictions on imports in domestic prices are over the world price. Putting non-tariff barriers the revenue is mainly captured by license holders rather than the poor. That is because of among the wealthiest members of society often are license holders not the poor. Furthermore, the costs of trade

protection will often become inefficiency costs to the poor through transfer income gain from the poor to the rich. Moreover, as mentioned about plan for cross-border countries trading within 10 nations of ASEAN community by 2015, the Royal Government of Cambodia, Mr Prime Minister, Hun Sen has decided conclude trade policy reform into government policy in order to implement in cross-border trading by promoted trade liberalization including non-tariff barriers toward economic growth and alleviation poverty.

5.2. Export and Import

Cambodia is one of low-income and least developed countries in the world, the result from civil strife of other conflict since 1960s to 1980s made Cambodia entered into modern global economy later than some of other countries. In 1990s Cambodia has got political stable that leads country started to do policy innovation and economic development. One of most important strategies on trade policy reform was to transform state-owned textile into an export industry, created more jobs opportunities for Cambodian people. However, the newly industries are requires relatively to low levels of capital and limited of skills of workers.

In particular, garments are the first main industrial products for exports accounting for 80% of total industrial revenue in the country. Although it is an important source for job creation as it absorbs up to 300,000 low-skill workers in the industries sector, but the income earned by each worker is not proportional to the garment revenue as a whole. For instance, right after national election in the year of 2013 each worker can earn his or her salary in average only \$100 to \$128 a month while they have to spend some of this income for expensive daily food and commodities follow the unstable of market prices.¹⁸ In this point of view means that even the poor can get job

¹⁸ Economic Institute of Cambodia, EIC Project, 2013

to works in industries but they still cannot enjoys standard of living well, especially in the urban areas with the lower return of their labor hours.

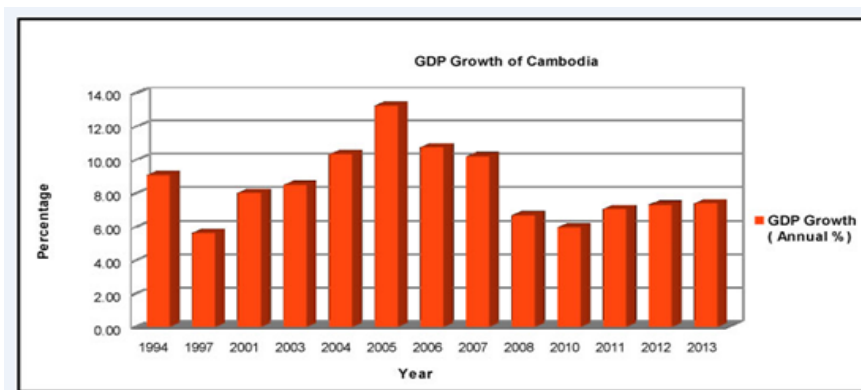
Consequent, as the World Food Program (WFP) reported on agricultural production has shown that in the mid 1990s Cambodia have exceeded 7% of the average amount of annual GDP growth rate driven by garment exports sector with include construction sector and tourism sector. Moreover, Cambodia in 2006 once again has enjoyed GDP growth rate of 10.4% from double-digit economic growth which is comes after 10.30% of GDP growth rate in 2004 and 13.30% of GDP growth rate in 2005.¹⁹ However, after several years during 2011 the growth of agricultural sector was slowed, it can therefore made the country economy and society welfare in trouble since most important of agriculture commodity in Cambodia is rice and then are fish, meat, vegetables, fruits and so many others. With this slowdown also made the poor faced lack of food in the same year. This shortage of food has lead food imports up to 42% year by year through 39,330 tons in 2011 up to 55,818 tons totally in February 2012.²⁰ So, for the last few years GDP growth rate in 2011 has 6.9%, GDP growth rate in 2012 has 6.5% and GDP growth rate in 2013 has 7.20%.²¹

¹⁹ Economic Institute of Cambodia, EIC Project, 2007

²⁰ WTO, Annual Report, 2012

²¹ Ministry of Commerce, Annual Report, 2013

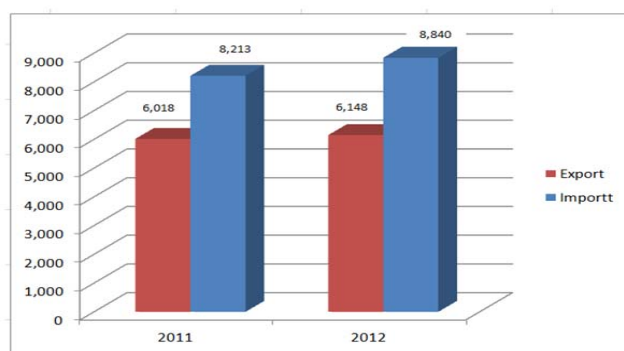
Figure 8: GDP Growth of Cambodia



Source: Ministry of Commerce, Annual Report, 2013

As a report from Ministry of Commerce has show export growth rate in 2011 is \$6.018 billion and increase to \$6.148 billion in 2012 while import growth rate in 2011 is \$8.213 billion and increase to \$8.84 billion in 2012. This is simply means that even export is rapidly growth but the amount of import is also growth faster than export this is because of the relevant issue are mentioned above that make Cambodia still one of the importing country in the broadly world market.²²

Figure 9: Cambodia's Import and Export



Source: Ministry of Commerce, Annual Report, 2013

²² Ministry of Commerce, Annual Report, 2013

In the next year, if Cambodia can transform country from importing country to exporting country, so that all Cambodian people both poor people and rich people can enjoys benefit from trade reform as well as both whether they are producer or consumer, their income level will be higher and standards of living of them will goes up faster no matter where are they living in whole Cambodia. By seeing such of this issue, export promotion policy and import restriction policy can use for work on poverty reduction strategy among other strategy that existed in trade policy reform of royal government of Cambodia's policy prospective.

5.3. Small and Medium Enterprise (SMEs)

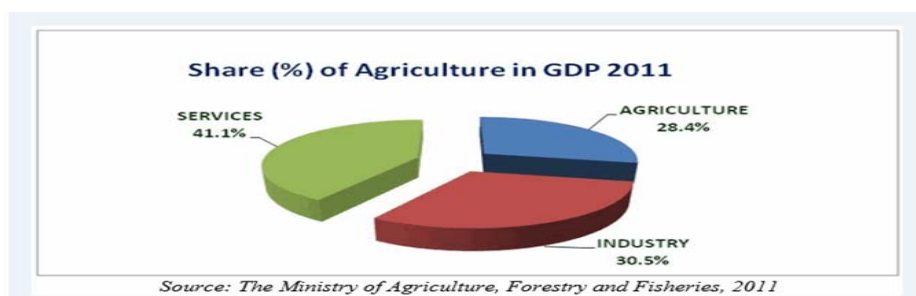
Small and Medium Enterprises (SMEs) are generating a positive in a net-return to the people both urban and rural poor with has limited both resources and capacities to accelerate growth and to reduce poverty. Small and Medium Enterprises is vital to Cambodian employment which will likely plays a crucial role in future economic innovation, growth and economic diversification. Furthermore, for making good policy process to affect in SMEs it is needs to monitoring and evaluating impact that policies intended to recipient. Regarding to trade policy making process there is needs to be clearly evaluate whether the policies are having positive or negative impact on SMEs. So, SMEs is one of the most significant sectors among major sector of development for rising income to the poor direct and indirect way for whether they live in rural or urban.

In particular, SMEs in Cambodia, means to a local business that still relatively weak and lack of capacity, human resources and finance. By seeing such of this issue royal government have supporting SMEs which has been fairly limited in terms of Small and Medium Enterprise development policy. There basically based on credit and financial systems, frameworks to support business associations, capacity building, and infrastructure development. In addition,

international development partners such as KOICA, JICA, United Nations Development Program (UNDP), Asian Development Bank (ADB), World Bank (WB) have play a roles for adding up supporting in research and legal framework of development, trade promotion, financial access, and business development in order to be more priorities and more gradually to increase domestic trade growth rate and create more jobs to the poor. So far, the royal government should aspire to take more responsible.

However, as mentioned earlier, Cambodia has a significant amount of arable and fertile land and, along with majority of people living in remote areas; promoting and maximizing agriculture product and agri-industrial product is immense importance in order to revitalize local economies by produce and sell them to SMEs under industry sector which working follow trade policy reform. As the report from Ministry of Agriculture, Forestry and Fisheries in the year of 2011 has shown the share percentage of Agriculture in GDP is 28.4% while Industry is 30.5% and Services 41.1%.²³ That is means that the product from agriculture has distributed to industry through SMEs well since the main major of Cambodia's economy is Agriculture sector but the income from agriculture sector is lower than the income from industry sector because of the price value of product different in sector.

Figure 10: Share (%) of Agriculture in GDP, 2011



Source: Ministry of Agriculture, Forestry and Fisheries, 2011

²³ Ministry of Agriculture, Forestry and Fisheries, 2011

So, after promoting and maximizing agriculture products and agri-industrial products the income of the poor is increase as a result. This certainly sure that agri-industrial can help to creates more jobs and skills, reduces migration and finally improves local economy as strong as when the SMEs sector is goes well.

5.4. Labor Market and Private Sector

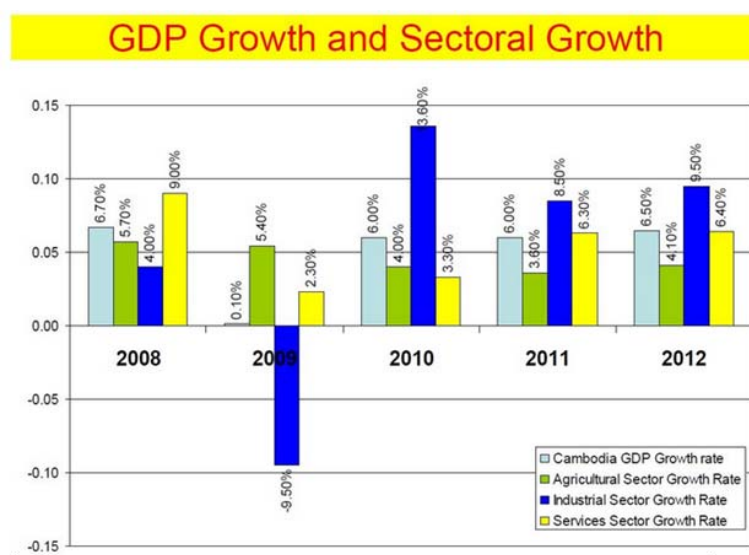
The Royal Government of Cambodia also looks into private sector that could play a crucial role in reducing poverty which is can increase labor force through job creation in order to promote individual income of people. Thus, private sectors therefore are expected to involved in the process of monitor and evaluate in the National Poverty Reduction Strategy (NPRS) of Royal Government of Cambodia. In Cambodia, private sector has been described as the mechanism of enhance growth and it is can help to reducing poverty in the country. This is because private sector can employs larger employee and also can contribute to economic development in Cambodia in long run. However, the private sector in Cambodia has embraced many sectors such as construction, banking, micro finance institute, garment and textile industry, hospitality, tourism and so forth. In recently, the flow of private sector investment has accelerating growth gradually by each factor with the potential of exports and competitive advantages of others with high returns that was identified by royal government. So that those are from agriculture sector, infrastructure sector, and many other sectors can enjoys the benefit from private sector especially from the labor market.

In addition, this sector is consists mainly Manufacturing, Small and Medium Enterprise (SMEs) and individual entrepreneurs as well as foreign investment companies. Meanwhile, Cambodia has attract foreign investor by improving Foreign Direct Investment (FDI) policy reform come

into Cambodia's trade market, for an increasingly competitive international business environment as well as the national business opportunities. But the influence of foreign companies on economic was slow due to variety of reasons in recently. The performance of competitiveness from neighbor countries in term of trade policy reform and legal reform are significant at low-cost utilities and judiciary in country which means that Cambodia has to continue to work hard on this reform.

Recently, poverty reduction strategy in Cambodia is likely to take place in private sector for delivery income to the poor by public service, so that all the poor can gain from their labor employed in this sector. Working in public services as in private sector can raise the cost of doing business and society welfare for limits access to markets both in local and international market, since needs are so tough with limited resources. Accurately, the private sector is also has actively involved in electricity and water supply, transportation and telecommunications, assists more in private education and health care to the.

Figure 11: Cambodia's GDP Growth and Sector Growth



Source: Ministry of Economic and Finance, Report to Council of Minister, 2011

5.5. Job Creation

The Royal Government of Cambodia (RGC) has recognized job creation opportunities as a major concept in the next coming policy reform, especially in trade policy reform. However, even can create more job in agriculture sector is very significant important to farmer in poverty reduction strategy that have much effect to people lives in rural and urban specially in aims for develop in rural area but, yet RGC has supported development policy outside agriculture sector too. Therefore, it is assists diversification of income of the poor and would be have better returns for labor force in labor market as well. Thus, in both rural and urban a large amount of the poor are working for long hours per day with a low return while labor productivity is also low and there has limited security though. Anyhow, the International Labour Organization (ILO) was emphasized job creations opportunities in its comments and improved work conditions to be better for use as a key role of trade policy reform in reducing poverty in developing country.

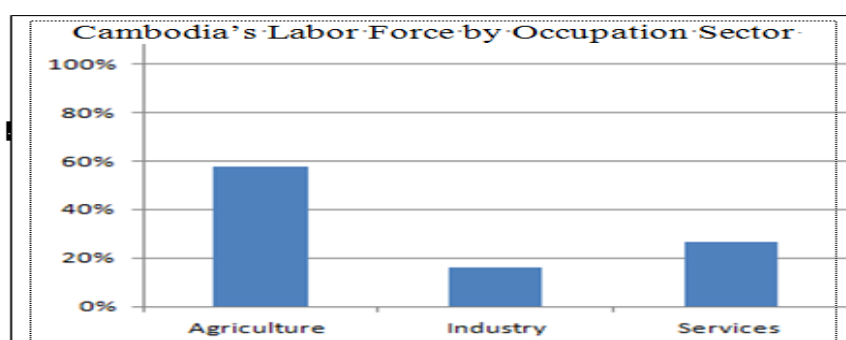
In particular, RGC is tend to improve job opportunities throughout facilitating of SMEs and private sector development vision, and by accelerate exports promotion. This strategy is how the intervention of royal government with private sector and the extent of trade policy reform will effect to improve the capacity building of worker such as skill training, vocational training and welfare of the people in Cambodia. Likewise, RGC is trying to establish good economic environment to all sectors in aims of wants to create enough job to all Cambodian citizen.

Moreover, according to UNDP report in 2009 was explored the labor force annually at least 300,000 youths have tried to seek job but at that time government can only absorb 7,000 graduate people come into public sector though private sector and 3,000 under retirement age annually.²⁴ In this case, royal government released employment pressure and reduced abundant

²⁴ UNDP, Annual Report, 2009

of job youth seekers through policymakers. They looked at local job creation rather than labor exports as this strategy is not enough to protect Cambodian workers in overseas which is would leaves the workers vulnerable of exploitation. However, in local job creation the policymakers are point into main major sectors in country are agriculture sector, tourism sector and industrial sector. But at the same time the cause that needs to attract more investors comes to local market to create more job opportunities is under strengthening of protecting investment law and facilitation from royal government. As a result in 2010 government has created more job to the people by using those policies that can make labor force rate is 8.8 million and also labor force rate by occupation sector as 57.6% in agriculture, 15.9% in industry and 26.5% in service.²⁵

Figure 12: Cambodia's Labor Force by Occupation Sector



Source: UNDP, Annual Report, 2010

Still, the agriculture sector has high figure of labor force that is because the main industry in Cambodia is Agriculture. This is the same as what has mentioned above for rural development policy of government that aims to create more job by doing agri-industrial product. As the result from job creation, the poor can get more income through their labor productivity that can make their living even more comfortable than before.

²⁵ UNDP, Annual Report, 2010

Chapter V: Conclusion and Policy Implications

In conclusion, the Royal Government of Cambodia (RGC) has faced significant time and greatly efforts to rehabilitate and redevelop country to get out of poverty; it is not the easy way to do so. Many criteria that have to be solve while the country economy is still weak and it is more difficult when a nation and government has to do so but the lack of human resource capital, financial budget, capacity building and other policies reforms are still in limited.

1. Discussion

Struggling with poverty reduction issue it is not only to push on growth but also the result both direct and indirect of the role of Cambodia's trade policy that could be much more and easily goes to help the poor. Consequently, growth does not exactly give any benefit directly to the poor but also throughout several issues of government policy such as trade policy reform and so forth. In some case the poor could enjoys advantage from growth, even though growth is very small relatively but still growth is needed; specially based on the performance of trade policy reform that can make its work well also with poverty reduction strategy of government. So the poor can enjoys more on these advantages.

Furthermore, other policy programs or policy reform should also applying and supporting to what the poor needs, especially the needs of their everyday life. So far, what is the most important in poverty reduction strategy in Cambodia is to make sure that the implementation of trade policy program is effective and efficient enough in order to achieve target goal in spite of needs and also other government policies has to be achieved. In addition, government should

focuses more on what is often effected to the poor for survive their life and standard of living of both urban and rural poor could be the performance of the role of trade policy that can goes directly to help them. In particular, royal government have to set up trade policy reform as soon as possible and then standing and push some other relevant issue with other partners both nation and international. So that the poor can enjoys their life by themselves as well as happiness in society.

2. Limitation and Further Research

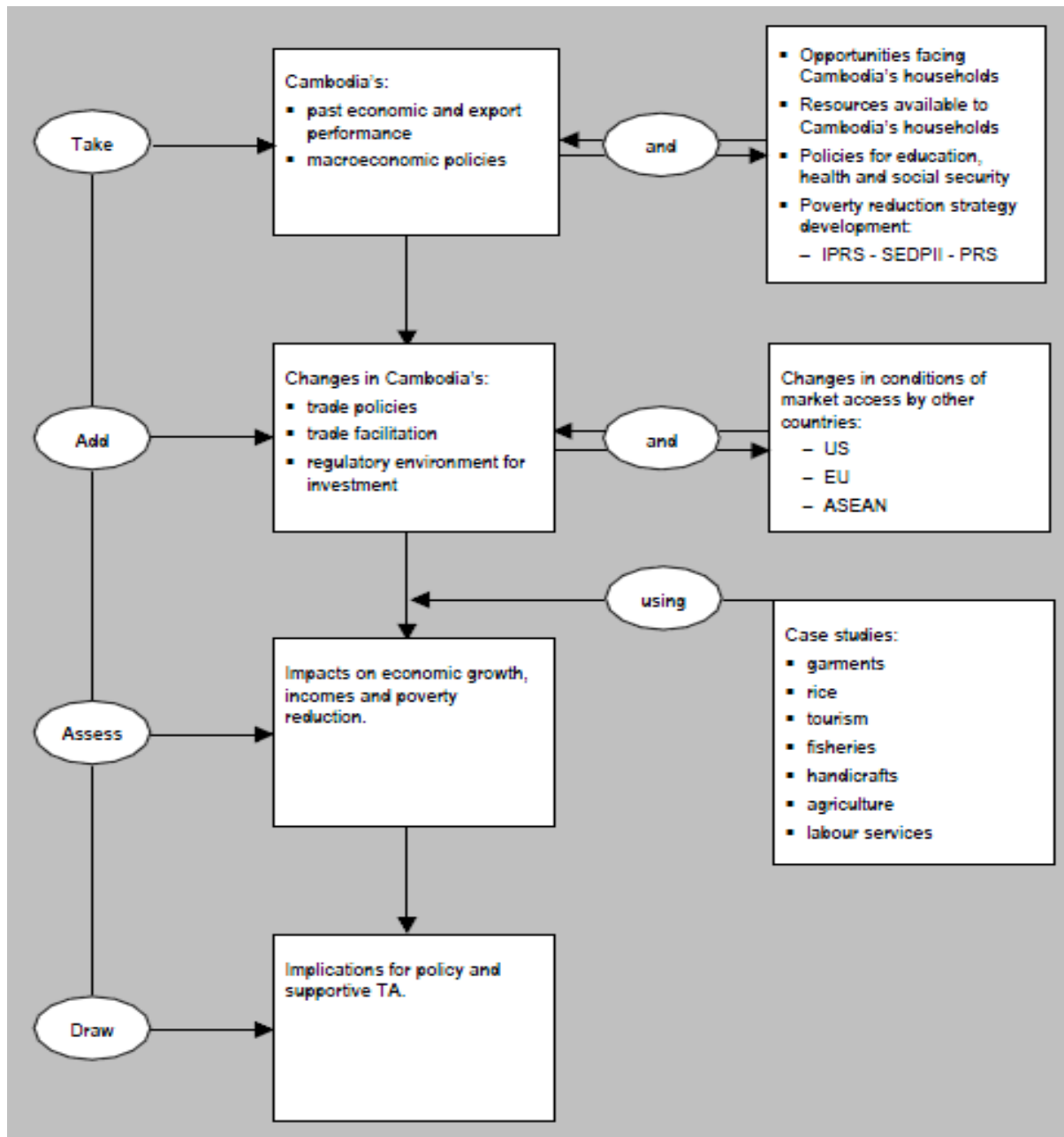
The Royal Government of Cambodia will extremely accelerate trade policy reforms and bring them more effectiveness and efficiency to poverty reduction strategy with strong determination, especially for policy maker, under participation and support of at all levels of Cambodian people and other development partners both nation and international from all quarters. Thus, the Royal Government of Cambodia will be get successful in reducing poverty in county by resulted of the role of trade policy, if the government strong enough to do so. Therefore, capacity building is required if trade policy reform has been rising up and working well while government policy is to be practiced.

Furthermore, Making Cambodia free from poverty and increasing growth through improving stability and welfare of trade is the long run and admirable challenge for royal government vision. The royal government has a strong provision and challenge to move Cambodia out of poverty and will extremely do it to improve all government policy reforms and bring them to employs in all level of national development strategies more efficiency and effectiveness. Cambodia still needs to face and deal with many challenges in order to achieving a smooth and efficient of trade policy reform particularly budgeting for working on the policy reform and other relevant issue.

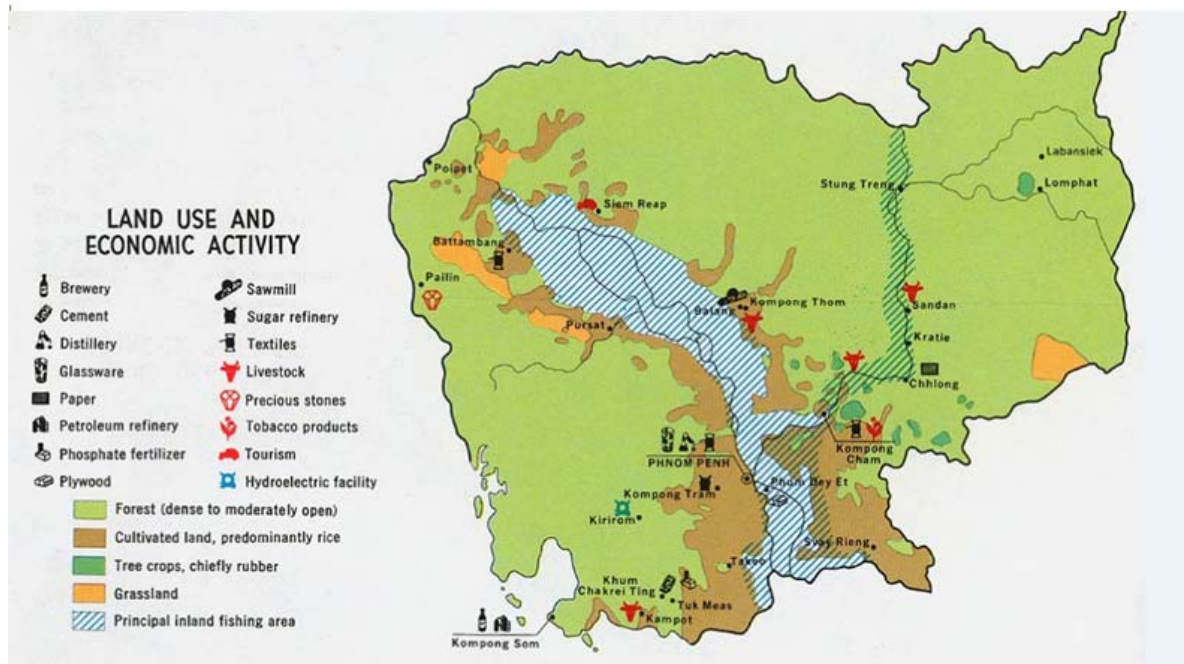
However, this requires long time and more effort though other progress in Cambodia. So, for long run, what should do and recommend to policymakers in royal government is which strategies should use to attracts foreign investors come to Cambodia's market while economic welfare and social welfare are good enough to absorb foreign investors come to invest in other to increase income and standard of living of the poor people in the whole country.

APPENDICES

1. Royal Government of Cambodia's Trade Policy Reform Scheme



2. Land Use AND Economic Activity of Cambodia



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